

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 FEA-01 PA-02 PRS-01

AGR-10 DOTE-00 STR-04 ABF-01 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 /117 W

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R 181715Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9072

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 02516

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS DURING THE PERIOD FEBRU-  
ARY 12 TO FEBRUARY 18, 1976

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SUMMARY. THE SHORT LULL FOLLOWING THE INTRODUCTION OF THE CHANCELLOR'S EMPLOYMENT PACKAGE ENDS WITH THE FEBRUARY 19 PUBLICATION OF THE LONG DELAYED WHITE PAPER ON PUBLIC EXPENDITURE WHICH WILL PROVIDE A FURTHER INDICATION OF THE SHAPE OF THE APRIL 6 BUDGET. THE CHANCELLOR GAVE A HINT OF HIS THINKING WHEN HE DESCRIBED IN GENERAL TERMS AN OFFER TO MAKE UP IN TAX REDUCTIONS ANY LOSSES IN INCOME THAT UNION MEMBERS MIGHT INCUR BY AGREEING TO A SECOND PHASE OF INCOMES POLICY WITH A NORM BELOW THAT OF THE PRESENT SIX POUND LIMIT. THE ECONOMIC BACKGROUND FOR DEBATE LEADING UP TO THE BUDGET AND THE NEXT PHASE OF INCOMES POLICY IS BECOMING CLEARER. CONSUMER EXPENDITURE IS SHOWING FIRST SIGNS OF RECOVERY, INFLATION CONTINUES TO ABATE, AND SEVERAL SECTORS OF INDUSTRY HAVE BEGUN TO INCREASE OUTPUT SIGNIFICANTLY.

1. INFLATION CONTINUES TO TAPER OFF. THE RATE OF INFLATION CONTINUED MODERATE IN JANUARY. THE RETAIL PRICE INDEX (1974 EQUALS 100) STOOD AT 147.9 IN JANUARY, A RISE OF 1.3 PERCENT FROM THE DECEMBER FIGURE OF 146.0. IN THE 12 MONTHS THROUGH JANUARY, THE RATE OF INCREASE IN THE PRICE INDEX WAS 23.4 PERCENT. THIS IS 3.5 PERCENTAGE POINTS BELOW THE PEAK OF 26.9 PERCENT REACHED IN AUGUST. THE ANNUAL RATE OF INCREASE MASKS THE SIGNIFICANT PROGRESS IN REDUCING THE RATE OF PRICE INCREASE THAT HAS OCCURRED DURING THE SECOND HALF OF 1975. OVER THE LAST THREE MONTHS PRICES HAVE RISEN AT AN ANNUAL RATE OF 15.2 PERCENT. WHEN THIS PERIOD IS EXTENDED TO 6 MONTHS, THE ANNUAL RATE OF PRICE INCREASE DROPS TO 13.6 PERCENT. MUCH OF THE RISE IN THE JANUARY INDEX IS DUE TO SHARP INCREASE IN THE PRICE OF POTATOES IN THE WAKE OF A POOR BRITISH CROP. THE PACE AT WHICH INFLATION SLACKENS OVER THE NEXT SEVERAL MONTHS SHOULD REFLECT RECENT MODERATING TRENDS IN THE WHOLESALE PRICES OF RAW MATERIALS AND FINISHED GOODS.

2. INDUSTRIAL PRODUCTION. FOR THE FIRST MONTH SINCE AUGUST, THE INDEX OF INDUSTRIAL PRODUCTION (1970 EQUALS 100) REGISTERED A DECLINE IN DECEMBER. AT 100.6 THE DECEMBER INDEX WAS 0.9 PERCENT BELOW THE NOVEMBER LEVEL OF UNCLASSIFIED

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101.5. A PARTIAL EXPLANATION FOR THIS SOMEWHAT UNEXPECTED DROP IN INDEX IS THE RECENT INCLUSION OF NEW YEAR'S DAY AS A PUBLIC HOLIDAY, A FACTOR COMPLICATING THE SEASONAL ADJUSTMENT OF THE DATA. AS A RESULT OF THE DECLINE IN DECEMBER, THE INDEX STANDS ABOUT WHERE IT WAS IN SEPTEMBER AND SOME 2.9 PERCENT BELOW THE DECEMBER 1974 FIGURE. THE SOMEWHAT NARROWER INDEX OF MANUFACTURING PRODUCTION WHICH EXCLUDES MINING, CONSTRUCTION AND PUBLIC

UTILITIES STOOD AT 99.8 IN DECEMBER, A 1.3 PERCENT DROP FROM THE NOVEMBER LEVEL OF 101.1. THIS INDEX WAS 4.3 PERCENT BELOW ITS DECEMBER 1974 LEVEL. SINCE THE AUGUST TROUGH, CHEMICALS, METAL MANUFACTURE, AND MINING HAVE SHOWN THE STRONGEST GAINS REGISTERING INCREASES AT ANNUAL RATES OF 27.3, 8.2, AND 17.0 PERCENT RESPECTIVELY.

3 RETAIL SALES INCREASE IN JANUARY. THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) WAS PROVISIONALLY ESTIMATED AT 109.0 FOR JANUARY. THIS IS A GAIN OF 1.9 PERCENT OVER THE DECEMBER FIGURE OF 107.0. THIS IS THE THIRD MONTH IN SUCCESSION WHEN THE INDEX HAS RISEN. OVER THE PAST THREE MONTHS, THE INDEX HAS RISEN BY 4 PERCENT IN COMPARISON WITH VIRTUALLY NO MOVEMENT DURING THE

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-11 ISO-00 FEA-01 PA-02 PRS-01

AGR-10 DOTE-00 STR-04 ABF-01 AID-05 CIAE-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 /117 W

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R 181715Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9073

INFO AMEMBASSY BERN

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PREVIOUS THREE-MONTH PERIOD WHILE THE DECEMBER AND JANUARY FIGURES ARE CLEARLY INFLUENCED BY SPECIAL CHRISTMAS CLEARANCE SALES, SIGNIFICANT INCREASES IN CONSUMER EXPENDITURE HAVE OCCURRED DURING THIS PERIOD. GIVEN THE DE-  
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CLINES IN REAL INCOMES THAT OCCURRED DURING 1975, IT IS LIKELY THAT CONSUMERS HAVE DIPPED INTO THEIR LARGE ACCUMULATED SAVINGS TO FINANCE INCREASED LEVELS OF SPENDING. THE UPWARD MOVEMENT IN RETAIL SALES HAS STILL NOT RESTORED THE INDEX TO ITS JANUARY 1975 LEVEL OF 112.8. THE FIGURE FOR JANUARY 1976 REMAINS 3.5 PERCENT BELOW THAT OF ONE YEAR EARLIER.

4. RAIL FARES INCREASE ANNOUNCED. PASSENGER FARES ON BRITISH RAILWAYS ARE TO RISE AN AVERAGE OF 12 PERCENT AS OF MARCH 28. THIS IS THE FOURTH FARE INCREASE IN THE LAST 12 MONTHS AND COMES ON TOP OF A CUMULATIVE INCREASE OF 51 PERCENT IN 1975. THE FARE INCREASES HAVE FOLLOWED IN THE WAKE OF A GOVERNMENT DECISION NOT TO INCREASE THE LEVEL OF PUBLIC SUBSIDIES TO THE RAILROADS. RAILROAD UNIONS HAVE OPPOSED THE INCREASES, CLAIMING THAT FEWER PASSENGERS WILL JEOPARDIZE EMPLOYMENT LEVELS. BRITISH RAIL OFFICIALS HAVE RESPONDED THAT THE INCREASES WILL FALL MOST HEAVILY ON COMMUTER ROUTES WHERE DEMAND IS LEAST ELASTIC.

5. CURRENT ACCOUNT. THE CURRENT ACCOUNT CONTINUED TO SHOW IMPROVEMENT IN JANUARY AS THE DEFICIT NARROWED TO AN ESTIMATED 59 MILLION POUNDS (S.A.) COMPARED TO 89 MILLION POUNDS IN DECEMBER. THE VISIBLE TRADE DEFICIT OF 179 MILLION POUNDS WAS COMPOSED OF A DEFICIT IN PETROLEUM AND PETROLEUM PRODUCTS OF 350 MILLION POUNDS AND A SURPLUS IN NON-OIL TRADE OF 171 MILLION POUNDS. THE INVISIBLES TRADE BALANCE CONTINUED TO SHOW AN ESTIMATED SURPLUS OF 120 MILLION POUNDS. THE VOLUME OF EXPORTS WAS UP 1 PERCENT WHILE THE VOLUME OF IMPORTS DECLINED 1.3 PERCENT. (SEE LONDON 2379 FOR COMPLETE DETAILS.)

6 FOREIGN EXCHANGE MARKETS THE LONDON FOREIGN EXCHANGE  
MARKET REMAINED RELATIVELY CALM DURING THE WEEK AS ATTEN-  
TION WAS FOCUSSED ON CONTINENTAL MARKETS THE STERLING/  
DOLLAR RATE SHOWED ONLY MARGINAL DAILY VARIATION WITH THE  
RATE RANGING BETWEEN \$2.0295 AND \$2.0225. SOME PRESSURE  
BUILT VIS-A-VIS THE D-MARK AND FRENCH FRANC BUT EASED AS  
IT BECAME APPARENT THAT AN IMMEDIATE REALIGNMENT OF THE  
EC SNAKE WAS NOT FORTHCOMING. FORWARD RATES CONTINUE TO  
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EASE AS INTEREST RATE DIFFERENTIALS CONTINUE TO NARROW  
WITH SOME SPECULATION THAT THE BANK OF ENGLAND MAY AGAIN  
CUT THE MINIMUM LENDING RATE ON FRIDAY, FEBRUARY 20

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R 181715Z FEB 76

FM AMEMBASSY LONDON

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7. EXCHANGE RATE AND GOLD

EFFECTIVE

DATE	EXCHANGE RATE(\$)	DEPRECIATION	GOLD
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(PERCENT)

2/11	2.0295	30.5	130.75
2/12	2.0260	30.5	131.50
2/13	2.0250	30.5	131.00
2/16	2.0225	30.5	131.50
2/17	2.0225	30.3	130.00

CHANGE 2/10-2/17 DN 0.0045 NARROWED 0.1 UP 0.50

8. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/11	0.85	2.22	4.25
2/12	0.75	2.20	4.18
2/13	0.75	2.15	4.15
2/16	0.67	1.95	3.92
2/17	0.55	1.85	3.85

CHANGE 2/10-2/17 DN 0.27 DN 0.27 DN 0.25

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/11	5	5-5/8	6-1/4
2/12	5-1/4	5-5/8	6-1/4
2/13	5-1/4	5-5/8	6.1/8
2/16	5-1/8	5-5/8	6 1/4
2/17	5-3/8	5 1/2	6-1/4

CHANGE 2/10-2/17 UP 3/8 DN 1/8 UNCHANGED

10. LOCAL AUTHORITY DEPOSIT RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/11	9-1/8	9-1/4	9-5/16
2/12	9-1/4	9-5/16	9-3/8
2/L3	9-1/16	9.3/16	9-3/8
2/16	9	9-5/32	9-3/8
2/17	8-9/16	8/29.32	9-5/16

CHANGE 2/L0-2/17 DN 5-1/6 DN 1/4 UP 1/32

11. THE MINIMUM LENDING RATE WAS UNCHANGED AT 9-1/2  
(SINCE FEB. 2), ON FRIDAY, FEBRUARY 13. SPIERS

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 FEB 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976LONDON02516  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760061-0235  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1976/newtext/t19760240/aaaabiqq.tel  
**Line Count:** 341  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
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**Review Authority:** ullricre  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 JUL 2004  
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04 MAY 2006

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**Review Transfer Date:**  
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**Subject:** ECONOMIC DEVELOPMENTS DURING THE PERIOD FEBRU- ARY 12 TO FEBRUARY 18, 1976  
**TAGS:** ECON, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006